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IN THE
Supreme Court of the United States
OCTOBER TERM, 1997

EASTMAN KODAK COMPANY,
Petitioner,

v.

IMAGE TECHNICAL SERVICES, INC., *et al.*,
Respondents.

On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

BRIEF FOR *AMICUS CURIAE* INFORMATION TECHNOLOGY INDUSTRY COUNCIL IN SUPPORT OF PETITIONER

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QUESTIONS PRESENTED

Amicus curiae Information Technology Industry Council addresses the following three questions in this brief:

I. The patent and copyright laws grant intellectual property owners the absolute right to refuse to license patented inventions or copyrighted works to anyone. A uniform line of decisions holds that antitrust liability cannot be premised on an intellectual property owner's mere exercise of its statutory rights of exclusion. The first question addressed by *amicus* is whether the court of appeals erred by departing from this settled principle and predicating antitrust liability on an intellectual property owner's simple unilateral refusal to license its property that is unaccompanied by any other exclusionary act.

II. Nothing in the patent and copyright laws conditions an intellectual property owner's right of exclusion on its subjective state of mind. This Court has long held that motivation is irrelevant in evaluating the legality of an intellectual property owner's unilateral refusal to deal. The second question addressed by *amicus* is whether the court of appeals erred by departing from this settled principle and concluding that antitrust liability may be imposed where reliance on statutory intellectual property rights is determined to be "pretextual."

III. Requiring firms to deal with their rivals undermines, rather than promotes, the purposes of the antitrust laws. For this reason, the courts have required such dealings only where cooperation among competitors is essential for competition to exist at all. The third question addressed by *amicus* is whether the court of appeals erred by departing from this settled line of decisions and effectively requiring petitioner to sell or license its property to its competitors without any requirement of essentiality.

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BRIEF FOR *AMICUS CURIAE* INFORMATION TECHNOLOGY INDUSTRY COUNCIL IN SUPPORT OF PETITIONER

Amicus curiae Information Technology Industry Council (ITI) respectfully submits this brief in support of petitioner.[1]

INTEREST OF *AMICUS CURIAE*

ITI represents the leading providers of information technology products and services in the United States. Its members include computer, software, office equipment, semicon-

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[1] Letters of consent from all parties to the filing of this brief have been filed with the Clerk. Pursuant to this Court's Rule 37.6, ITI represents that this brief was not authored in whole or in part by counsel for any party, and that no person or entity other than ITI, its members, or its counsel made a monetary contribution to the preparation or submission of this brief. Petitioner is a member of ITI; a complete list of ITI's members is reproduced at App., *infra*, 1a.

ductor, communications equipment, and consumer electronics companies. ITI's member companies, which employ more than a million and a half people in the United States, are responsible for more than sixteen percent of all industrially funded research and development and for more than half of all information technology research and engineering.

The Ninth Circuit's decision in this case is of critical importance to all firms that invest resources in research and development to create new or better products, processes, computer programs, and mask works. As the court of appeals acknowledged (Pet. App. 43A), this is the first case in which antitrust liability was imposed upon an intellectual property owner based on the mere exercise of its statutory rights to exclude other persons from using its patented goods and copyrighted works. ITI's member companies, which annually invest billions of dollars in research and development geared toward the creation of legally protected intellectual property, are concerned that the decision below exposes successful innovators to the risk of antitrust claims based on nothing more than the exercise of the legal right to secure a competitive advantage from their innovations.

STATEMENT

Petitioner manufactures, sells and services high-volume photocopiers and micrographic equipment, as well as replacement parts for its machines. Petitioner competes in supplying parts and service for its equipment with so-called independent service organizations (ISOs), including respondents. Respondents filed this antitrust suit to challenge petitioner's policies that restrict ISOs' access to parts manufactured by petitioner.

1. This Court previously granted certiorari in this case to consider "the standard for summary judgment in an antitrust controversy." *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 504 U.S. 451, 454 (1992). The Court primarily focused on respondents' claim that petitioner had instituted an unlawful "tying" arrangement between replacement parts and

service. The Court held that respondents had presented sufficient evidence that petitioner had the ability to act anticompetitively to survive summary judgment on respondents' claims under Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 & 2). *See* 504 U.S. at 477-79, 482-86.

2. On remand from this Court, respondents ultimately withdrew their Section 1 tying and conspiracy claims. Pet. App. 5A-6A. On the remaining Section 2 claims for monopolization and attempted monopolization, respondents' principal theory was that petitioner had acted anticompetitively by refusing to sell or license parts and software for servicing its machines to ISOs. Although petitioner has 220 patents covering 65 parts, and all of its diagnostic and service software is copyrighted, the district court instructed the jury that petitioner's mere refusal to sell parts or license software to competitors would violate Section 2 if it "unnecessarily excludes or handicaps competitors in order to maintain a monopoly." Pet. App. 24A. The court further instructed the jury that "the fact that some of the replacement parts are patented or copyrighted does not provide [petitioner] with a defense against any of the antitrust claims." Pet. App. 37A.

3. The jury awarded respondents $71.8 million after trebling. Pet. App. 6A. The Ninth Circuit affirmed the determination of antitrust liability and damages.

a. The court of appeals rejected the contention that a unilateral refusal to deal can violate the antitrust laws "only when the refusal involves something 'essential' to the survival of competitors." Pet. App. 26A. The court concluded that "exclusionary conduct can include a monopolist's unilateral refusal to license a patent or copyright, or to sell its patented or copyrighted work." Pet. App. 48A (brackets and internal quotation omitted). The court also stated that an intellectual property owner's "desire to exclude others" from exploiting its patented invention or copyrighted work "is a presumptively valid business justification for any immediate harm to consumers." *Ibid.* The court accordingly held that "the district court's failure to give any weight to

[petitioner's] intellectual property rights in the jury instructions constitutes an abuse of discretion." Pet. App. 49A.

b. The Ninth Circuit concluded that the district court's erroneous failure to instruct the jury on petitioner's right to exclude others from using its intellectual property was "harmless." *Ibid.* The court said that the presumption afforded patent and copyright holders "may . . . be rebutted by evidence of pretext." Pet. App. 51A. Based on its cursory review of two isolated bits of evidence, the court found that "it is more probable than not that the jury would have found [petitioner's] presumptively valid business justification rebutted on the grounds of pretext." Pet. App. 52A.

REASONS FOR GRANTING THE PETITION

The court of appeals acknowledged that it could "find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright." Pet. App. 43A. In fact, numerous courts have concluded that a unilateral exercise of an intellectual property owner's right to exclude others from using its patents or copyrights cannot form the basis for antitrust liability. The court in this case, however, sustained a massive antitrust judgment based on precisely such conduct by petitioner—even though the district court had erroneously refused to instruct the jury regarding petitioner's intellectual property rights. That decision cannot be reconciled with the express statutory right of intellectual property owners to the exclusive use of their property or with well-settled law governing the intersection of the antitrust and intellectual property laws.

I. Antitrust Liability Cannot Be Premised On A Unilateral Refusal To Sell Or License Intellectual Property

Exercising its constitutional authority to secure to authors and inventors for a limited time the exclusive rights to their inventions and writings (U.S. Const., Art. I, § 8, cl. 8), Congress has granted intellectual property owners exclusive control over their patents and copyrights. The patent law grants

patentees the right to exclude all others from making, using, or selling patented inventions. 35 U.S.C. §§ 154, 271(a). Similarly, the copyright law grants copyright owners the exclusive right to reproduce copyrighted works, make derivative works, and distribute copies of copyrighted works. 17 U.S.C. §§ 106(1)-(3).

1. The statutory rights granted to a lawful owner of patents and copyrights authorize the owner to exclude any and all others—including competitors—from using its patented goods and copyrighted works. The patent owner has a legal "right to refuse to sell . . . [its] patented products." *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 457 (1940). Indeed, as this Court has recognized, "the right to exclude others from profiting by the patented invention" is "the essence" of the patent grant. *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 (1980); *Zenith Radio Corp.* v. *Hazeltine Research Inc.*, 395 U.S. 100, 135 (1969) (right to exclude others from using invention is at "[t]he heart" of the patent grant). Likewise, the copyright owner "may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property." *Fox Film Corp.* v. *Doyal*, 286 U.S. 123, 127 (1932). This Court recently reiterated a copyright holder's exclusive right under the Copyright Act to refuse to distribute its work. *Stewart* v. *Abend*, 495 U.S. 207, 229 (1990) ("this Court has held that a copyright owner has the capacity arbitrarily to refuse to license one who seeks to exploit the work").

Given that the ability to exclude all others from using the protected inventions or works is the very essence of the patent and copyright owner's right, it follows that an owner's unilateral refusal to allow others to use its lawfully acquired intellectual property cannot violate the antitrust laws. As the leading antitrust treatise observes, "while courts have construed antitrust law to impose other constraints on patentee behavior—such as prohibiting the use of tying arrangements and similar practices—none of those instances involved

overriding an express patent law grant." 3 Areeda & Hovenkamp, *Antitrust Law* ¶ 708d, at 190 (1996).

With the notable exception of the decision below, every court of appeals to have considered the question has held that an intellectual property owner's refusal to license or sell its protected works could *not* violate the antitrust laws. *Miller Insituform, Inc.* v. *Insituform of North America, Inc.*, 830 F.2d 606, 609 (6th Cir. 1987) (lawful patent owner "cannot be held liable under Section 2 . . . by refusing to license the patent to others" because "the holder of a patent retains the power to exclude others from manufacturing, using, and selling his inventions without running afoul of the antitrust laws"), *cert. denied*, 484 U.S. 1064 (1988); *SCM Corp.* v. *Xerox Corp.*, 645 F.2d 1195, 1204, 1206 (2d Cir. 1981) ("Where a patent holder . . . merely exercises his 'right to exclude others from making, using, or selling the invention,' by refusing unilaterally to license his patent for its seventeen-year term, such conduct is expressly permitted by the patent laws. . . . [W]here a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws"), *cert. denied*, 455 U.S. 1016 (1982); *United States* v. *Westinghouse Electric Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) (rejecting a claim "that an antitrust violation may be found where a patent holder does precisely that which the patent laws authorize" because "[t]he right to license th[e] patent, exclusively or otherwise, or to refuse to license at all, is the untrammeled right of the patentee") (internal quotation omitted).[2]

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[2] *See also Genentech, Inc.* v. *Eli Lilly and Co.*, 998 F.2d 931, 949 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1140 (1994); *Service & Training, Inc.* v. *Data General Corp.*, 963 F.2d 680, 690 (4th Cir. 1992); *Beal Corp. Liquidating Trust* v. *Valleylab, Inc.*, 927 F. Supp. 1350 (D. Colo. 1996); *Tricom, Inc.* v. *Electronic Data Systems Corp.*, 902 F. Supp. 741, 743 (E.D. Mich. 1995); *Servicetrends Inc.* v. *Siemens Medical Systems, Inc.*, 870 F. Supp. 1042 (N.D. Ga. 1994); *Advanced Computer Services* v. *MAI Systems Corp.*, 845 F. Supp. 356 (E.D. Va.

This uniform line of decisions, with which the decision below directly and irreconcilably conflicts, is plainly correct. As this Court has recognized, "[t]he patent laws which give a 17-year monopoly on 'making, using or selling the invention' are *in pari materia* with the antitrust laws and modify them *pro tanto*." *Simpson* v. *Union Oil Co.*, 377 U.S. 13, 24 (1964); *see Lucasarts Entertainment Co.* v. *Humongous Entertainment Co.*, 870 F. Supp. 285, 290 (N.D. Cal. 1993) (given that the "essence of a copyright interest" is to "exclude use of the copyrighted work," the copyright laws also are "in *pari materia* with the antitrust laws and modify them *pro tanto*"). Thus, because the patent laws grant "the right to exclude others from the use of the invention," the "exertion [of that right] within the field covered by the patent law is not an offense against the Anti-Trust Act." *United States* v. *United Shoe Machinery Co.*, 247 U.S. 32, 57 (1918). Given the "historic kinship between patent law and copyright law" (*Sony Corp.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984)), a unilateral refusal to license a copyright similarly cannot violate the antitrust laws.[3]

1994); *United States* v. *Telectronics Proprietary, Ltd.*, 607 F. Supp. 753, 755 (D. Colo. 1983); *Chisholm-Ryder Co.* v. *Mecca Bros., Inc.*, 217 U.S.P.Q. 1322, 1388 (W.D.N.Y. 1982), *aff'd*, 746 F.2d 1489 (Fed. Cir. 1984); *GAF Corp.* v. *Eastman Kodak Co.*, 519 F. Supp. 1203, 1233 (S.D.N.Y. 1981).

[3] In light of the similar origin and purpose of the patent and copyright laws, this Court has relied on the logic of patent cases in assessing the lawfulness of refusals to grant copyright licenses. *See United States* v. *Loew's, Inc.*, 371 U.S. 38, 46-47 (1962); *United States* v. *Paramount Pictures, Inc.*, 334 U.S 131, 158 n.12 (1948). As the federal antitrust authorities have recognized, "the governing antitrust principles are the same" for patent and copyright. *United States Department of Justice and Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property* (April 6, 1995), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132.

Lest there be any doubt about the correctness of the decisions discussed above, Congress has expressly provided that "[n]o patent owner . . . shall be . . . deemed guilty of misuse *or illegal extension of the patent right* by reason of having . . . refused to license or use any rights to the patent." 35 U.S.C. § 271(d)(4). By its terms, this statute precludes a finding of antitrust liability as an "illegal extension of the patent right"—the very basis of the Ninth Circuit's decision—based on a patentee's unilateral refusal to license or sell a patented invention. Section 271, like the uniform line of decisions it codifies, prohibits a finding of antitrust liability based on the refusal of the patent holder to license or sell its patented inventions.[4] As one court has correctly ob-

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[4] When Section 271 was amended in 1952 to cover "illegal extension[s]" of patent rights, it was recognized that the effect of the new language "might be to carve out an area in which the antitrust laws would not operate. . . . The proponents of the bill indicated that such a result [was] contemplated in the language of [what became Section 271]." *Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary*, 82d Cong., 1st Sess., June 13, 14, and 15, 1951, Serial No. 9 at 207. When Section 271 was amended again in 1988 to make clear that refusal to license a patented invention was not an illegal extension of the patent right, Representative Kastenmeier cited cases holding that such a refusal to license did not violate the antitrust laws and stated that "codification of the 'refusal to use or license' as not constituting patent misuse is consistent with the current caselaw and makes sense as a matter of public policy." 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988). The Ninth Circuit said that Section 271 does not preclude antitrust liability for unilateral refusals to license protected works because it "merely codified existing law." Pet. App. 39A n.7. Of course, the "existing law" at the time the statute was amended in 1988 uniformly held that an antitrust action could not be maintained for conduct that was permissible under the patent laws.

Although the Copyright Act does not contain a similar express exclusion, the great majority of cases involving this issue have concerned patents. Because Section 271 was amended to codify existing case law, no negative inference can be drawn from the fact that Congress has thus far seen no need to similarly amend the copyright statutes.

served, "it would be superfluous to sanction and protect activity within one area of the law and concurrently prohibit and expose a patentee to damages by reason of another body of law." *Rohm & Haas Co.* v. *Dawson Chemical Co.*, 557 F. Supp. 739, 835 (S.D. Tex.), *rev'd on other grounds*, 722 F.2d 1556 (Fed. Cir. 1983).

2. Given the overwhelming body of authority holding that an intellectual property owner cannot be held liable under the antitrust laws for refusing to license its patents or copyrights, the district court's refusal in this case even to instruct the jury on petitioner's intellectual property rights was clearly, as the court of appeals held, an abuse of discretion. Equally erroneous, however, was the Ninth Circuit's conclusion that the jury's verdict could nevertheless stand.

Although the court of appeals acknowledged that "the right of exclusive dealing is reserved from antitrust liability" (Pet. App. 43A), and recognized that cases such as *Miller Insituform*, *Westinghouse*, and *SCM* had refused to premise antitrust liability on the refusal of an intellectual property owner to license its protected inventions, the court refused to apply those principles in this case. The sole bases for that refusal were footnote 29 of this Court's *Kodak* decision, which the Ninth Circuit construed to mean that "the Court in *Kodak* supposed that intellectual property rights do not confer an absolute immunity from antitrust claims" (Pet. App. 43A), and the decision in *Data General Corp.* v. *Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).

a. The *Kodak* footnote on which the court of appeals relied states that "power gained through some natural and legal advantage such as a patent, copyright, or business acumen can give rise to liability if a seller exploits his dominant position in one market to expand his empire into the next." 504 U.S. at 480 n.29 (internal quotation omitted). It is, of course, true that otherwise unlawful business conduct is not immunized from antitrust scrutiny simply because it involves intellectual property. An intellectual property owner remains subject to the antitrust laws for conduct that is outside the

scope of the patent and copyright laws—for tying a patented product to an unpatented one, say, or for a price-fixing conspiracy involving copyrighted works. *See United States* v. *Line Material Co.*, 333 U.S. 287, 308 (1948) ("possession of a valid patent or patents does not give the patentee any exemption from the provisions of the Sherman Act beyond the limits of the patent monopoly").

The *Kodak* Court made it clear, however, that it was doing nothing more than rejecting a broad immunity *from tying claims*. 504 U.S. at 479 n.29. Each of the antitrust cases that the Court cited in support of the quoted language involved otherwise unlawful conduct, such as tying or price fixing, rather than the unilateral exercise of the right to refuse to license intellectual property. Thus, footnote 29 stands only for the unexceptional proposition that "concerted and contractual behavior that threatens competition is not immune from antitrust inquiry simply because it involves the exercise of copyright privileges." *Data General*, 36 F.3d at 1185 n.63.

At trial, respondents abandoned the tying claims that are the subject of footnote 29; their only remaining claims are Section 2 claims based on Kodak's unilateral refusal to deal. The *Kodak* footnote simply did not address this conduct. *See In re Independent Service Organizations Antitrust Litigation*, 964 F. Supp. 1479, 1489-90 (D. Kan. 1997) ("The Court's statement [in footnote 29] simply is not applicable where a patent holder, exercising his unilateral right to refuse to license or use his invention, acquires a monopoly in two separate relevant antitrust markets"). Rather, such conduct is specifically addressed and authorized by the intellectual property laws, and antitrust liability therefore cannot attach. *United Shoe Machinery*, 247 U.S. at 57. Contrary to the court of appeals' interpretation, this Court in *Kodak*'s footnote 29 did not purport to change that well-established rule.

b. The court of appeals relied on *Data General* for the proposition that the patent and copyright laws create a "rebuttable presumption" that an intellectual property owner's refusal to license its protected works is a "valid

business justification" for its conduct. *See* Pet. App. 48A. With respect to patents, this conclusion squarely conflicts with *Data General*: The First Circuit expressly recognized that unilateral refusals to license patented inventions do not violate the antitrust laws. 36 F.3d at 1186.

The *Data General* court did hold that a copyright owner's desire to exclude others from exploiting its copyrighted works was merely a presumptively valid business justification. *Id.* at 1187. Although the First Circuit stressed that the presumption could be overcome only in "rare cases" (*id.* at 1187 n.64), the court's analysis, like the Ninth Circuit's, was fundamentally flawed in this regard. The cases discussed above conclusively establish that, in the absence of invalidity or misuse, the holder of an intellectual property right—patent or copyright—can refuse to license its protected works without even implicating the antitrust laws. *See Servicetrends*, 870 F. Supp. at 1057 n.8 (because defendant, as a matter of law, was not required to sell its patented components, no inquiry need be made into business justifications).

A refusal to allow others to use a patented invention or copyrighted work is justified not only by "business" considerations, but by explicit statutory allowance. This Court has recognized that an intellectual property owner can *arbitrarily* refuse to license its property to anyone. *Stewart*, 495 U.S. at 229 (copyrights); *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 432-33 (1945) (patents). Thus, the intellectual property owner by definition need not provide "valid business reasons" for its conduct. Such reasons must be articulated only when the exclusionary conduct would otherwise be unlawful. *Kodak*, 504 U.S. at 483.

II. An Intellectual Property Owner's Subjective Motivation in Refusing to License Its Patents or Copyrighted Works Is Irrelevant

After concluding that an intellectual property owner's statutory right of exclusion creates only a presumptively valid business justification for refusing to license its patents

or copyrighted works to competitors, the court of appeals simply asserted, without any citation of authority, that "[t]he presumption may . . . be rebutted by evidence of pretext." Pet. App. 51A. That is wrong.

1. This Court has *never* held that the lawfulness of an intellectual property owner's exercise of its statutory rights turns on its motivation in refusing to license protected works. On the contrary, the Court has explicitly stated that intent is irrelevant: "As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, *without question of motive*." *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 429 (1908) (emphasis added); *see United States* v. *Rock Royal Co-op*, 307 U.S. 533, 560 (1939) (statutorily authorized conduct does not violate antitrust laws regardless of defendants' "ulterior motive"); *Professional Real Estate Investors, Inc.* v. *Columbia Pictures Industries, Inc.*, 508 U.S. 49, 64 (1993) ("[T]o condition a copyright upon a demonstrated lack of anticompetitive intent would upset the notion of a copyright as a 'limited grant' of 'monopoly privileges' intended simultaneously 'to motivate the creative activity of authors' and 'to give the public appropriate access to their work product'") (quoting *Sony*, 464 U.S. at 429).

2. There is nothing in either the patent or the copyright laws that conditions an intellectual property owner's right to exclude others from using its patented inventions or copyrighted works on the owner's subjective state of mind. Courts and commentators alike have concluded that the "search for an overriding 'antisocial' motivation" will often be, in the words of the First Circuit, "unilluminating." *Data General*, 36 F.3d at 1189. *See also* 3 Areeda & Hovenkamp, *Antitrust Law* ¶ 705(b), at 156 ("Making antitrust liability turn on [motivation] invites juries to make meaningless characterizations," rarely or never provides a guide to determin-

ing liability and "greatly chills pro-competitive behavior"). This conclusion is founded both on business reality and common sense, recognizing that "no commercial firm invents except with the hope of prevailing over its rivals" and no one applies for a copyright or patent "without knowingly intending to acquire the legal power to exclude." *Ibid.* It is thus unsurprising that courts uniformly have "regard[ed] as irrelevant" the defendant's motive in licensing (or refusing to license) its protected works. *See W.L. Gore & Associates, Inc.* v. *Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976).

Under the law, an intellectual property owner has the absolute right to refuse to allow others to use its protected works. Because the patent or copyright holder alone has "the right to exclude others from profiting from the patented invention" (*Dawson Chemical*, 448 U.S. at 215) or copyrighted work, it can make no legal difference that its executives might have had the company's bottom line, rather than its statutory intellectual property rights, in mind when they decided to exclude others from profiting from the company's protected works. On the contrary, ensuring profits by protecting innovation is precisely what Congress intended in granting the exclusive right to license, or refuse to license, patents and copyrights. *See, e.g.*, *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 480 (1974).

III. A Refusal To Supply Rivals Is Not Unlawful Where Such Dealing Is Not Essential to Competition

The decision below penalizes petitioner for declining to sell or license its intellectual property to its competitors, effectively mandating such sale or licensing. But even where intellectual property rights are not implicated, courts do not casually require firms to deal with rivals. As this Court has observed, "[t]he central message of the Sherman Act is that a business entity must find new customers and higher profits through internal expansion—that is, by competing successfully rather than by arranging treaties with its competitors."

United States v. *Citizens & Southern National Bank*, 422 U.S. 86, 116 (1975). Requiring firms to help their competitors tends to diminish the competition that otherwise would exist between them and thus undercuts, rather than promotes, the purposes of the antitrust laws.

The court of appeals sustained a jury instruction under which petitioner could be held liable for monopolization if its refusal to supply its competitors "unnecessarily excludes or handicaps competitors in order to maintain a monopoly." Pet. App. 24A. The court rejected the contention that a duty to deal may exist only where supplying competitors is essential to competition. In this regard, the Ninth Circuit's decision conflicts with a large body of case law that holds that dealings with competitors may be mandated, if at all, only where cooperation among competitors is essential for competition to exist at all. *See, e.g.*, *MCI Communications Corp.* v. *American Telephone & Telegraph Co.*, 708 F.2d 1081, 1132-33 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983) (access to a competitor's assets may be mandated only based on (1) a monopolist's control of an essential facility; (2) competitors' inability practically or reasonably to duplicate the essential facility; (3) denial of the use of the facility to a competitor; and (4) the feasibility of providing the facility); *see also Willman* v. *Heartland Hospital East*, 34 F.3d 605, 613 (8th Cir. 1994), *cert. denied*, 514 U.S. 1081 (1995); *City of Anaheim* v. *Southern California Edison Co.*, 955 F.2d 1373, 1380 (9th Cir. 1992); *Laurel Sand & Gravel, Inc.* v. *CSX Transportation, Inc.*, 924 F.2d 539, 544 (4th Cir.), *cert. denied*, 502 U.S. 814 (1991); *Twin Laboratories, Inc.* v. *Weider Health & Fitness*, 900 F.2d 566, 570 (2d Cir. 1990).

The court of appeals based its rejection of the "essentiality" requirement on an erroneous reading of *Aspen Skiing Co.* v. *Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985), where this Court concluded that a business's "right" not to sell ordinary goods is not "unqualified." *Id.* at 601-02. Although this Court did not use the "essential facilities" label, *Aspen* involved access to facilities—mountains in Aspen,

Colorado—that could not be replicated by competitors, no matter how enterprising. The Court based the duty to deal on the indispensability of the plaintiff's access to the mountains to effective competition in the sale of ski lift tickets. *See Olympia Equipment Leasing Co.* v. *Western Union Tel. Co.*, 797 F.2d 370, 377 (7th Cir. 1986) (*Aspen* "is like the essential-facility cases in that the plaintiff could not compete with the defendant without being able to offer its customers access to the defendant's larger facilities"), *cert. denied*, 480 U.S. 934 (1987); *Servicetrends Inc.* v. *Siemens Medical Systems., Inc.*, 870 F. Supp. 1042, 1053 (N.D. Ga. 1994) ("'essential facilities' doctrine underlay" the *Aspen* decision).[5]

The requirement of essentiality is necessary to ensure that courts do not extinguish competition between rivals by requiring the first party to develop a marketable facility, product, or service to sell or license it to competitors. Even if this case did not involve intellectual property, it cannot be enough for a plaintiff to show that it would be easier to deal with a rival than to compete; the plaintiff must show that competition would not exist without compulsory access to the rival's goods. Yet the decision below disregards the settled legal standard that requires competitors to rely on their own resources and not those of their rivals, requiring only that a plaintiff demonstrate that a unilateral refusal to deal "unnecessarily excludes or handicaps competitors."

The court of appeals' holding is particularly troubling in the context of intellectual property because, as demonstrated above, the right of patentees and copyright holders to refuse to license is unqualified. But the standard sanctioned by the court is troubling even outside this context. The Ninth Cir-

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[5] Similarly, in *Otter Tail Power Co.* v. *United States*, 410 U.S. 366 (1973), where the Court also required a supplier to sell to competitors, the defendant controlled a natural monopoly over the distribution of electric power, by definition an essential facility that could not be duplicated.

cuit's standard is vacuous because of its inherently subjective nature, making the outcome of a Section 2 case the legal equivalent of a roulette spin. Such a standard is also extremely overbroad because it punishes companies for realizing the fruits of their investments.

Companies invest in research and development precisely *because* they can gain a competitive advantage as a result. If they are successful, their rivals will suffer a competitive disadvantage—a "handicap"—in competing with them. If this were enough to support a monopolization case, successful innovators would be stripped of their rights over their inventions and works at the whim of a jury. Yet under the Ninth Circuit's approach, the likelihood of an antitrust violation based on the exercise of the exclusive right to use one's own property increases with the significance of an innovation, because competitors will more likely be "handicapped" by having to develop their own alternatives. The court of appeals thus ignored the fundamental principle that "the lawful monopolist should be free to compete like everyone else; otherwise the antitrust laws would be holding an umbrella over inefficient competitors." *Olympia Equipment Leasing Co.*, 797 F.2d at 375. Indeed, in this case the court sanctioned the imposition of liability for failing to supply rivals who were able to compete successfully without such compulsory access.

Ironically, the court of appeals' approach ultimately will *decrease* competition by reducing the incentive of third parties to develop competing substitutes for products that they cannot obtain by sale or license. By dispensing with the essentiality requirement, the decision below encourages competitors to use the antitrust laws to free-ride on successful innovations while collecting treble damages to boot. This Court should not allow the antitrust laws to be interpreted in a way that defeats their very purpose.

IV. Review By This Court Is Warranted To Correct The Court Of Appeals' Erroneous Construction Of The Antitrust And Intellectual Property Laws

1. The decision below represents a significant departure from long-settled principles applicable to the interplay between antitrust law and the intellectual property laws. The court of appeals erroneously abandoned the traditional rule that an intellectual property owner's exercise of its statutory right to refuse to license or sell its protected works cannot serve as the predicate for antitrust liability, in favor of a vague "presumption" that reliance on the patent and copyright statutes constitutes a "business justification" for exclusionary conduct. The court compounded that error by abandoning the common-sense notion that an intellectual property owner's motivations for invoking its statutory rights to preclude others from using its protected works is irrelevant, concluding instead that the presumption can be rebutted by some undefined (and undefinable) showing that a unilateral refusal to deal was "pretextual." And the court of appeals effectively required petitioner to deal with its rivals without requiring any showing that such compulsory access was essential to competition. As demonstrated above, the Ninth Circuit's conclusions squarely conflict with numerous decisions of this Court and of other courts that have considered these issues. Review is warranted for that reason alone.

2. The conflict between the decision below and the weight of authority is graphically illustrated by a recent decision involving Xerox Corporation. *In re Independent Service Organizations Antitrust Litigation*, No. MDL-1021 (D. Kan. Dec. 22, 1997) (*Xerox*).[6] Like petitioner, Xerox manufactures photocopiers and was sued by ISOs who contended that its restrictive parts policy constituted exclusion-

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[6] Because the most recent *Xerox* decision has not yet been published in the Federal Supplement, it is reproduced for the convenience of the Court at App., *infra*, 2a-25a.

ary conduct that violated the antitrust laws. Unlike this case, however, the district court granted summary judgment for Xerox on the ground that its refusal to sell or license patents and copyrights could not result in antitrust liability, and the Federal Circuit denied the ISOs' request to take an interlocutory appeal on that issue. *CSU Holdings, Inc.* v. *Xerox Corp.*, 129 F.3d 132 (Fed. Cir. 1997) (Table).

After the Ninth Circuit's decision in this case, the ISOs in the *Xerox* litigation asked the district court to reconsider its ruling. In a thorough and well-reasoned opinion, the court "decline[d] to follow the Ninth Circuit's holding in *Kodak*. Rather, we find that where a patent or copyright has been lawfully acquired, subsequent conduct permissible under the patent or copyright laws cannot give rise to any liability under the antitrust laws." App., *infra*, 6a.

The *Xerox* court rejected the notion that an intellectual property owner must provide a "business justification" for refusing to license its protected works, recognizing that such conduct "is expressly authorized by patent law and therefore *immune* from antitrust scrutiny. This result is *compelled* by the holdings of *SCM*, *Miller Insituform*, and *Westinghouse*." App., *infra*, 20a (emphasis added); *see also id.* at 24a.

The *Xerox* court also rejected the proposition that the motivation for excluding competitors is relevant. The court recognized that "[t]he standard articulated by the Ninth Circuit in *Kodak* makes it very difficult for a jury, a judge, or even the patent holder, to distinguish between a permissible refusal to deal (based on a desire to profit from and protect patent rights) and an impermissible refusal to deal (apparently based on a desire to obtain a competitive advantage by excluding competitors)." App., *infra*, 19a.

The directly contrary results in *Xerox* and the decision below highlight the conflict the Ninth Circuit has created with established law: On nearly identical facts involving manufacturers' unilateral refusals to license patented and copyrighted products to ISOs, one ITI member (Kodak) has been ordered to pay $71.8 million while another ITI member

(Xerox) has been granted summary judgment. Such an irreconcilable interpretation of the antitrust and intellectual property laws cannot be allowed to stand uncorrected.[7]

3. The decision below creates tremendous confusion in an area where certainty is critical. Companies, including ITI's members, spend billions of dollars developing intellectual property. The decision below, however, by recognizing antitrust liability for refusing to license intellectual property, will deter innovation by impairing the exclusive rights of patent and copyright holders. *See SCM*, 645 F.2d at 1206 ("If the threat of treble damage liability for refusing to license were imbedded in the minds of potential patent holders as a likely prospect incident to every successful commercial exploitation of a patented invention, the efficacy of the economic incentives afforded by our patent system might be severely diminished"). Moreover, "it is unclear from the *Kodak* opinion exactly what documented reason would be sufficient to justify a refusal to deal. Accordingly, *patent holders could rarely refuse to sell their patented products with any comfort that they are in compliance with the law*." App., *infra*, 20a n.4 (emphasis added).

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[7] Although *Xerox* is a district court decision, ITI submits that the conflict between the decision below and *Xerox* warrants this Court's intervention given the importance of the questions presented. *See Massachusetts* v. *United States*, 435 U.S. 444, 453 (1978). Moreover, the Federal Circuit has already declined to hear an interlocutory appeal from the grant of summary judgment to Xerox, indicating that it agrees with the district court's reasoning. *Cf. Ivan Allen Co.* v. *United States*, 422 U.S. 617, 623-24 (1975). The Court should grant review at this time rather than await the inevitable intercircuit conflict that will result when *Xerox* or a similar case is decided by another court of appeals. *Cf. Gulf States Steel Co.* v. *United States*, 287 U.S. 32 (1932). In any event, the Ninth Circuit, by issuing a decision that is at odds with virtually all prior opinions in this area, has "so far departed from the accepted and usual course of judicial proceedings . . . as to call for an exercise of this Court's supervisory power." *See* this Court's Rule 10(a).

Inconsistent decisions in intellectual property cases create uncertainty among inventors, investors, manufacturers, and other participants in the markets for patented inventions and copyrighted works. Such uncertainty can deter innovation, frustrating the Framers' directive that Congress "promote the Progress of Science and useful Arts." U.S. Const., Art. I, § 8, cl. 8; *see Fogerty* v. *Fantasy, Inc.*, 510 U.S. 517, 527 (1994) ("Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible"); *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) ("increased uniformity would strengthen the United States patent system in such a way as to foster technological growth and industrial innovation") (internal quotation omitted).

The creation of intellectual property is a multibillion-dollar segment of our Nation's economy, and many intellectual property owners choose to exercise their statutory rights not to sell or license patented inventions or copyrighted works to competitors. As the Ninth Circuit recognized, "[u]nilateral conduct is the most common conduct in the economy." Pet. App. 46A-47A. Review is warranted to ensure that the court of appeals' derogation of intellectual property rights does not open a floodgate of antitrust litigation based on conduct that is expressly authorized by law.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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